

# alpha+ capital management

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The economy is just ambling along, lacking that energizing force that can quicken the pace of expansion. For one thing, the natural tendency to expand is impeded by costly government intrusion, and that reason is just one of several. Another is the combination of generous social support programs and longer lifetimes. In the American experience, the current wave of new retirees are the baby boomers born during the exuberance in the 1950s after victories in WWII and Korea. That large cohort represents a clumping of population intensified by increasing longevity. To make things even more challenging, the US has a looming national debt of \$20 trillion to be dealt with.

Another intrusion is the recent federal termination of an evolving free market medical care industry and the substitution of a system designed and controlled by the government. Yet another is the sudden popularity among some states and cities to legislate sharp hikes in minimum wages, seemingly without awareness or concern about actual economic effects. The combined effect of these inefficient systems with complex rules and penalties is, to some extent, debilitating and gives us this persistent sub-two percent rate of expansion.

It can be argued logically that slow growth is now appropriate and the economy should not be artificially stimulated by inane financial schemes such as extremely low, even negative interest rates. Our labor force is growing slowly and consumption patterns are stable. Part of the economic vitality we enjoy stems from the human ingenuity which took us from telegraph to pocket computer in one century. There is reason to expect more to come: Just getting underway are cashless transactions, driverless cars, and virtual imaging. How about virtual education? And drones of various sizes and capabilities for weaponry, surveillance, and crowd control which might replace some military forces?

In addition to the changes within modern economies is the ongoing spread of recent technology to less developed regions of the world which fosters growth in demand for everything. Another is implied by the global interconnectedness made possible by information handling technology. Imagine a future world population deciding things in concert through their intentions as transmitted via implanted cranial chips. The whole of mankind welded into a single decision making body. You won't want to be without the chip and they're likely to be financeable cashlessly.

In comparison with the sluggish worldwide scene, the US economy appears to be healthy enough to keep on expanding slowly until a favorable sea change comes upon us. And what might that be?

Our best guess is that America does not yet appreciate the self correcting efficiency of a truly competitive free market system and that we would become more prosperous after we apply that knowledge. A turn in that direction could come in elections later this year. Other good signs would be acceptance that elimination of government deficits and repayments of government debt would enhance prosperity.

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With respect to the weight of the \$20 trillion, it is already being reduced by repurchase of US bonds by the Federal Reserve in exchange for cash. This is the only tool deemed usable by our government and is essentially an unethical scheme: Get money by selling long term bonds, then repurchasing some of them with the new cash. The practice is known as “monetizing the debt;” the effect is to enable spending now while burdening future populations with the responsibility for repayment, meanwhile diminishing the purchasing power of the currency through inflation which helps to reduce the value of the debt to a level that might be actually repayable.

Under this set of circumstances we believe a sensible approach to a healthy economy would also include a reduction in the federal budget of about one third, lower tax rates, a long term plan to replace Social Security and Medicare with private pensions and medical insurance coverage, with the needs of the indigent covered by private charity and public support systems as a last resort.

The investments best situated to prosper in the future are stocks, primarily of US companies but also some foreign holdings, inflation protected bonds, gold and high quality short term corporate bonds.

Best wishes for the rest of 2016.

Sincerely,

John May